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SUBJECT: GHANA'S ENERGY CRISIS II: Mining Industry Coping Better than Most

REF: A) Accra 2006 00933, B) Accra 01634 C) Cotonou 232 D) Lagos 182

D) Accra 847

¶1. Summary: This is the second in a series of cables on Ghana's energy crisis. It focuses primarily on the impact on the mining sector and the industry's response. The mining sector accounts for 40 percent of Ghana's total foreign exchange earnings and consumes nearly 20 percent of total power production. The World Bank estimated that the growth rate for the mining sector will be about five percent annually, rather than 10 percent, because of electricity shortages. Seeing no relief in sight, the four largest mining companies are financing an 80-100MW diesel-powered backup system in Tema. End Summary.

IMPACT OF ENERGY CRISIS ON MINING SECTOR

¶2. Ghana's mining sector accounts for 40 percent of total foreign exchange earnings and consumes nearly 20 percent of total power production. Full mining operations draw about 150MW of power and strong growth was foreseen. Energy shortages are already cutting into the growth. According to a November 2006 World Bank Aide Memoire, the projected growth rate for the mining sector has fallen from ten to five percent annually because of electricity shortages. Current total installed back-up energy capacity to date for mining facilities is about 25MW.

¶3. In late August 2006 the Volta River Authority, the GoG company that runs the Akosombo Dam, asked the mines to cut electricity demand by 25% and in September that was increased to 50%. However, VRA unofficially backed down from the 50% target after about a month. This may have been because the four largest mining companies collectively financed a $500,000 deal to air-freight a rotor from Manchester, England to repair a thermal turbine at the Takoradi power plant.

¶4. The timing of the energy crisis is particularly poor for Newmont, a U.S. firm. Newmont significantly ramped up gold mine operations in Brong Ahafo in June/July 2006 and electricity needs have grown as they move toward optimal operating capacity. Newmont has 12.8MW of back up power on site; operating at full capacity, Newmont needs 32MW.

TAKING MATTERS INTO THEIR OWN HANDS

¶5. Seeing no relief in sight and to avoid further future disruptions, the mining companies are taking matters into their own hands. The four largest companies (Goldfields and AngloGold Ashanti of South Africa, Golden Star Resources Ltd., and Newmont Mining) are financing an 80-100MW diesel-powered backup system in Tema. The mining companies are working out an agreement whereby VRA will operate the plant on their behalf. The companies hope to generate power by May 2007 using diesel fuel, but expect to use gas from the WAGP once it is on-line (free flow expected later this year). This

would reduce the cost from 20 cents per kwh for diesel to around six cents for natural gas. Newmont suggested that the GoG might be planning to share/use the mines' power if, once complete, other crisis-averting solutions are not yet functional.

COMMENT

¶6. The energy crisis is hitting the manufacturing sector hard, with potentially serious follow-on impacts on Ghana's economic growth. For example, Ghana's booming construction industry contributed about 9% of GDP in 2006. However, most buildings are constructed out of concrete block and cement prices have risen about 50%, making some projects too expensive to start or to complete. Ghana Cement Company (GHACEM), which supplies 90% of the country's cement, claims the increases are due to shortages brought on by energy cuts and recently installed 5.1MW of its own generating capacity to try to compensate. Most local businesses, however, do not have the resources of the mining companies or GHACEM to make such investments. For example, the local press reported a Cape Coast corn miller's daily income fell from about $20 to $5, and a soap maker's company lost about a third of its production capacity. Even those firms with generators are faced with the high cost and periodic shortages of diesel. Quantifying the economic impact is difficult given multiple variables but the World Bank aide memoire estimated that real GDP growth in 2006 would be reduced between 0.7% and 0.9% as a result of the impact of the energy crisis on mining and manufacturing. Not only is existing industry in Ghana suffering as the cost of doing business with limited energy continues to rise, but until the situation stabilizes, Ghana's attractiveness as a destination for investors is tarnished. End comment